



QUARTERLY REPORT #5

Report Period: October 1 – December 31, 2013

SCALING HIGH-IMPACT INNOVATIONS OF SOCIAL ENTREPRENEURS

| Mercy Corps Contact | | Project Summary | |
|---------------------|---|-----------------|--------------------|
| Name | Carol Skowron | Award No. | AID-OAA-A-12-00044 |
| Title | Sr. Program Officer | Start Date | Sept. 17, 2012 |
| Address | 45 SW Ankeny Street Portland, OR 97204 | End Date | Sept. 16, 2017 |
| Phone | 503.896.5861 | Report Date | January 31, 2014 |
| Email | cskowron@field.mercycorps.org | Total Award | \$20,451,617 |

Table of Contents

| | |
|--|----|
| List of Acronyms and Abbreviations | 3 |
| I. Executive Summary | 4 |
| II. Program Overview | 4 |
| III. Performance Summary..... | 4 |
| IV. Administration | 12 |
| V. Challenges and Lessons Learned | 13 |
| VI. Conclusions | 14 |

List of Acronyms and Abbreviations

| | |
|----------|--|
| AOR | Agreement Officer's Representative |
| AMP | Award Monitoring Plan |
| DIV | Development Innovations Ventures |
| EF | Everyone Forever |
| IEE | Initial Environmental Examination |
| IIA | Innovation Investment Alliance |
| ION | Investment Opportunity Note |
| IRM | Investment Recommendation Memo |
| MC | Mercy Corps |
| MM | Mission Measurement |
| PMP | Performance Monitoring Plan |
| Skoll | Skoll Foundation |
| Snapshot | Also known as VHLPS, or Very High Level Program Snapshot, has very basic information about the proposed organization |
| USAID | United States Agency for International Development |

I. Executive Summary

During this reporting period, Mercy Corps applied an intense focus on due diligence and advancing the Round 2 investment opportunities to funding. Although much progress was made on several opportunities, none of the prospects were prepared to advance to the application stage and funding. We anticipate awards will be issued for most of the investments in the next quarter and decisions by USAID and Skoll Foundation in January will determine which are advanced.

II. Program Overview

A. Program Summary

The Scaling High-Impact Innovations of Social Entrepreneurs is an alliance between the Skoll Foundation (Skoll) and USAID, to co-invest \$40 million in cutting-edge, rigorously-evaluated innovations that are ready to scale, have sustainable models and can produce systems-level change. As an implementing partner, Mercy Corps screens, investigates, evaluates and proposes high-potential candidates; provides selected subrecipients with funding; and manages implementation on behalf of USAID for their portion of this program. Mercy Corps works closely with Skoll to ensure alignment between the parties.

The goal of the overall alliance is that *high-impact, sustainable innovations proven to produce systems-level change in the developing world are showcased and brought to scale, in conjunction with the alliance partners.*

Two strategic objectives have been proposed for Mercy Corps' work under the alliance:

1. Alliance effectively leverages partners' resources and expertise to more powerfully support organizations at critical points for scale and transformational impact.
2. Social innovations provide and share meaningful data that demonstrate the impact of their approach as well as measure the value and impact of the investment alliance as a whole.

B. Program Environment

Mercy Corps is continuing investigation of prospects in Round 2 and beginning review of organizations for Round 3.

III. Performance Summary

Based on goals laid out in the cooperative agreement, success under this program will be measured on three levels:

1. Mercy Corps' management of the partnership activities and USAID's funds distributed to recipient organizations as described in the Award Monitoring Plan (AMP).
2. Aggregate program results across all recipient organizations, which will be measured using the Results Framework. This information will be collected and reported semi-annually.
3. Individual recipient organizations will report against their own Performance Monitoring Plan (PMP), reported quarterly.

1. Management of the Partnership

A. Selection of Recipient Organizations this Quarter

In this quarter, no recipient organizations were approved for funding. Work continued on investigating and defining program opportunities with the prospective organizations identified in Round 2.

- ***VisionSpring(VS)***: Expanding vision services for low-income customers in Bangladesh, Central America, and Rwanda;
- ***Everyone Forever (EF)***: Scaling a new WASH partnership with Water For People, IRC Water and Sanitation Centre, and Water and Sanitation for the Urban Poor in Honduras, Ghana, Uganda, and Rwanda;
- ***Evidence Action/Innovations for Poverty Alleviation (EA)***: scaling low-cost chlorine dispensers for water safety in Uganda.

While positive progress was made to move forward with all of these investments, this round of deals has made clear the importance of timing USAID approval for funding to Skoll's board meetings (February, June, and October). For example, although Evidence Action was arguably in a position to move forward more quickly, its linkage under a common water "impact thesis" with Everyone Forever, and uncertainty around Skoll's board's receptivity to an organization that Skoll has not funded in the past, has caused Mercy Corps to hold on moving forward until decisions are made within Skoll. Specific observations about updates and progress on each deal are outlined in more detail.

VisionSpring: Although we have maintained solid interest in the organization and their model for providing eyeglasses for the BOP, there have been some changes to the scope of the opportunity for USAID under this partnership. VisionSpring has decided not to pursue expansion in Rwanda and this opportunity has been dropped from consideration. Skoll has funded VS in Bangladesh for up to \$1.25 million but Mercy Corps recommended and USAID management agreed to not to support investment in this country given the lack of financial sustainability in that program. The opportunity in Central America looks very promising, however, and Mercy Corps is continuing due diligence on the investment and expects to continue to complete application stage next quarter. Mercy Corps anticipated a Q1 2014 funding release for this program from the start, given the need to get VisionSpring board approval for the expansion at their December board meeting. This go-ahead was granted, and Mercy Corps and Skoll are

moving forward to finalize this deal. Interestingly, Skoll brought in Grand Challenges Canada into the funding consortium at a time when the VS funding envelope appeared much larger and they are likely to fund part of the Central America investment opportunity. The entrance of a third partner into this consortium is likely to reduce USAID's investment to \$850,000.

Everyone Forever: MC continued to work very closely with Skoll, USAID and the EF partners to develop this opportunity, however we have been impeded by an investment opportunity whose core innovation is difficult to articulate. Due diligence conversations with a range of experts have emphasized the high quality of the partners' work, but have put forward slightly differing perspectives about the innovation in place, something that has also dogged Alliance partners in our read of EF documents outlining their value. Both Mercy Corps and Skoll have dedicated much time and effort into researching and defining this opportunity. On October 29 Mercy Corps and Skoll representatives met with Rachel Cardone, a representative of the EF partners, in Seattle for a day-long discussion of the opportunity to better understand the innovation. Skoll's COO, Richard Fahey, has taken a personal interest in this opportunity and attended meetings and discussions about it. Skoll staff also conducted a field visit of EF partners in Uganda and shared their findings with Mercy Corps and USAID. In mid-November, the EF partners submitted an updated document describing the investment opportunity, and included more information around a defined innovation for the IIA. This document was shared with both Skoll and USAID, including the WASH sector specialists at USAID. Mercy Corps and Skoll continued research and conversation around the opportunity, and Skoll and Mercy Corps together drafted another document articulating the innovation.

Our findings have confirmed the great work of these organizations, but a lingering question remains about how strong this investment is for Alliance uptake, and Skoll is not confident about its ability to get approval from their management committee. At the end of the quarter, management at USAID and Skoll were considering whether to move forward with this complex opportunity. Mercy Corps had anticipated EF funding in December 2013, but given the challenges in clearly defining the opportunity and Skoll's challenge of getting a decision through their management committee, this investment opportunity has not only missed this funding target, but is in jeopardy of not being funded at all.

Evidence Action/Innovations for Poverty Alleviation: Mercy Corps conducted thorough due diligence on this prospect and is ready to move forward into application stage. Skoll has also indicated interest in funding this organization as part of the overall water impact thesis which would include funding EF. Additional work on this opportunity is pending a decision on EF. Given Skoll's decision to tie the opportunity to EF, or at the very least to wait until their board meeting before giving USAID a signal for approved funding, EA will not meet the December target for funding. If the partners agree to disaggregate EA from EF, we anticipate funding this opportunity in early 2014.

Table 1: Round 1: December 2012 – March 2013

| Pool | IONs | Application | Funded |
|---------------------------|----------------|-------------|--------|
| 7 | 1 | 1 | 1 |
| Imazon | Imazon | Imazon | Imazon |
| Root Capital | | | |
| Mothers2Mothers | | | |
| Ceres | | | |
| Forest Trends | Forest Trends* | | |
| Amazon Corridors/Avina | | | |
| Building Markets | | | |

* Not completed

Table 2: Round 2: May 2013 – December 2013**Pool**

Skoll pipeline = 9

USAID pipeline = 11

| Gate 1 | Gate 1.5 | Gate 2/Snapshots | Gate 3/ IONs |
|--------------------------------|--------------------------------|---------------------|---|
| 9 Shortlisted | 7 shortlisted | 4 Selected | 4 Selected |
| Water for People/EF | Water for People/EF | Water for People/EF | Everyone Forever |
| Evidence Action | Evidence Action | Evidence Action | Evidence Action |
| Instiglio | Instiglio | | |
| Vision Spring | Vision Spring | Vision Spring | Vision Spring (2 versions submitted) |
| Entrepreneurial Finance Lab | Entrepreneurial Finance Lab | | |
| Pratham | Pratham | Pratham | (Pratham)* |
| Riders for Health | | | |
| IDE-I | IDE-I | | |
| SIRT-Kenya & Georgetown | | | |

* selected for potential smaller program with reduced due diligence. No ION written

Table 3: Total Number of Organizations in IIA process at the end of Q5

| | |
|------------------------------|----|
| Total Considered | 27 |
| Total Shortlisted | 11 |
| Total Snapshots completed | 4 |
| Total IONs | 4 |
| Total Applications submitted | 1 |
| Total Funded | 1 |

Round 3: December 2013 – Funding in approximately June 2014 (USAID is not expected to approve funding until after the Skoll Board of Directors meets in June).

Mercy Corps has initiated pipeline review with USAID and Skoll to start the next round of potential investments. During this quarter Mercy Corps requested a list of applicants in the DIV pipeline and has also received information from Skoll on candidate organizations to consider. USAID has promised additional candidates early next quarter, and is working internally to get approval to release additional information about pipeline candidates to the partners for consideration.

B. Mission Measurement

The Mission Measurement contract has been completed and new MC staff hired to perform M&E functions. See staffing section under Administration.

C. External Communications

During the quarter, Mercy Corps and Alliance partners began planning work for communications stories tied to the release of upcoming funds, as well as updated Imazon information. However, no unique articles were published. Previous stories developed by Mercy Corps continued to receive site visits, and updated statistics are below.

Table 4: Communications

| | |
|---------------------------------------|------|
| Number of unique stories | 4 |
| Number of outlets posting the stories | 7 |
| Unique page views* | 1242 |
| Number of conference presentations | 4 |

*Note: this reflects numbers from Mercy Corps, Skoll and Global Envision and from USAID. We do not have data from *Christian Science Monitor* or the *Economist*, but CSM receives over 4 million unique visitors per month

Mercy Corps, Skoll, and USAID expect to release targeted Op-Eds around VS' anticipated funding in February/ March, and expect to finalize the details of these Op-Eds in January 2014.

D. Mercy Corps Award Monitoring Plan

Mercy Corps submitted an Award Monitoring Plan within 90 days of receiving the award, but did not receive feedback or approval of the plan at that time. Mercy Corps highlight this issue in November 2013 and mentioned this in the annual report to USAID. The AOR has agreed that we should review and revise the plan, under guidance of USAID staff Avery Ouellette. Mercy Corps has discussed the AMP with Ouellette and made revisions and plan to finalize the new AMP next quarter.

E. Next Quarter Activities

Delays in decisions on the opportunities in Round 2 has pushed back the timeline for making awards. For VisionSpring, if approval to continue to application stage is given in January, MC will work with VS on the application and preparations for funding. If Skoll and GCC also approve the deal, funding is expected to be awarded in March.

If MC receives approval to move forward on the WASH opportunity with the EF partners, MC will move into application development and full due diligence. The complexity of the opportunity, with three partners and four countries, will require additional time to reach a complete the application and subgrant agreement preparation. If approved, Mercy Corps will work out a schedule together with Skoll and the partners to complete the program design and application. Finalization would have to wait until the Skoll Board meeting in June. If EA can be disaggregated from EF, we anticipate an earlier funding release for that deal. Mercy Corps has stopped expending resources on these deals until there is a clearer signal from Skoll about whether they are likely to be approved by their management committee and board and permission given by USAID to continue work on these opportunities. Mercy Corps and USAID recognize the opportunity costs of continuing to wait on these deals, and are encouraging a decision on whether to move forward as soon as possible.

Mercy Corps will work closely with USAID and Skoll to review their pipelines and construct a short list of opportunities to pursue for Round 3. We hope to hold a Gate 1 call in January and a Gate 2 in March in order to have several opportunities in the pipeline for funding in June/July .

2. Aggregate Program Results

Only one organization has been awarded funding, Imazon. Information about their results is in the next section.

3. Subaward Recipient Organizations

A. Imazon

Imazon is making steady progress towards its main objective of sustainable, reduced deforestation in the state of Pará by supporting the decentralization of the environmental

management from the state to the municipal level. Throughout this process Imazon is producing detailed cartographic information, building capacity at the municipal level, monitoring deforestation, supporting the development of an integrated management system, and working with the GMP to expand the decentralization.

As part of their efforts to create a basis for the decentralization of environmental management and

control Imazon has completed data collection and preliminary analyzes in 10 initial municipalities as well as the municipalities of Paragominas and Dom Eliseu. They have compiled the information into a database which they will use to create a report with recommendations for municipal management of the environment, and to provide the foundation for their work to increase municipal level capacity to track and predict deforestation moving forward. They are on-target for publication of the Environmental Management Guide in April as well as reports on the legal framework and the costs and benefits analysis at about that time.

Imazon has been working closely with GMP to help decrease the municipal deforestation rate. The two organizations have met continuously to define what changes should be made to the legal framework in Pará, to refine the modules of the environmental management system, to share deforestation alert system results, and to develop an automated data analysis system.

In order to build capacity of environmental management at the municipal level Imazon held their first training course in November. The course involved 40 hours of instruction on Geotechnology with a focus on CAR, the Rural Cadastral Registry. Participants included 10 experts, selected in partnership with GMP, from environmental secretariats responsible for the monitoring and enforcement of rural activities in the municipalities. As a result of the training they are expected to improve environmental management in their respective municipalities through the planning of strategic actions to combat and control threats.

During the last quarter, Imazon made significant progress on developing an integrated state environmental management system. Imazon defined the content and layout of the municipal bulletins for the pilot municipalities and organized the spatial database for analyses of deforestation. They carried out the detection of deforestation using MODIS satellite imagery to detect deforestation in the 10 initial municipalities and shared these findings with the respective municipal environmental secretaries. Additionally, they advanced in the development of a web-based system which will make data and evaluation of deforestation monitoring and verification activities directly available to municipal officials.



Figure 1: Introductory course on Geotechnology with a focus on CAR at the Center for Geotechnology, Belem

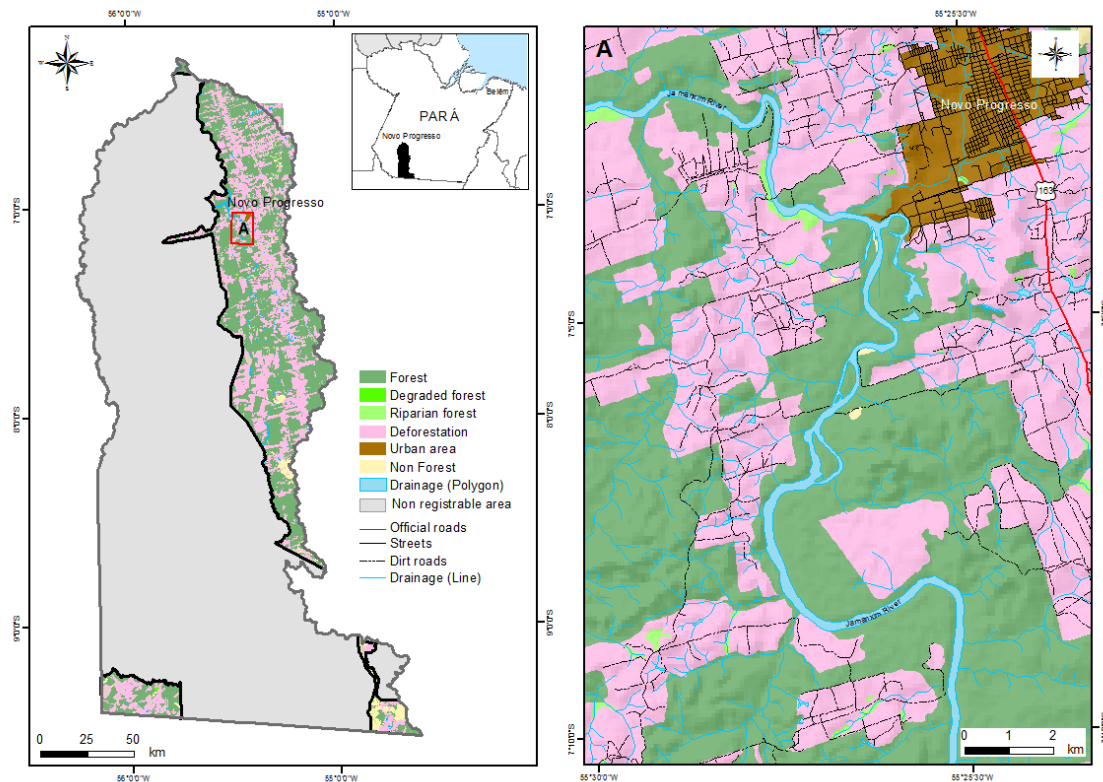


Figure 2: Example of a base map for the municipality of Novo Progresso

Imazon also produced a detailed report of deforestation alerts of rural properties throughout the state of Pará to the GMP and the Public Prosecutor's Office. Imazon will assess how these reports are used to enforce the law in the next quarter. Also, SEMA-PA will publish another report produced by Imazon on forest degradation associated with logging activities for the years of 2011 and 2012.

Imazon has had influence beyond the specific activities around environmental management. They worked with the GMP to secure \$42 million from the Amazon Fund which will be used to increase the number of CARs and strengthen local governments in controlling deforestation. Imazon also contributed to the design of the Green VAT tax system (Green ICMS) in the state of Para under which municipalities will be compensated according to their environmental performance. Imazon contributed to the technical projects and monitoring of the Environment Compensation Fund. Finally the Government of Para has requested Imazon's assistance with project design of a new World Bank project to support sustainable rural production and rural poverty reduction.

Amy Sproston, Mercy Corps Finance and Compliance Officer, attempted to make a monitoring visit in December to review Imazon's finance and compliance systems and to ensure compliance with USAID's requirements. The processing of her visa application was very slow due to the backlog created by the upcoming World Cup to be held in Brazil. She has obtained the visa and rescheduled her trip to January.

Terracarbon

Mercy Corps contracted Terracarbon to lead the external evaluation for Imazon in September. As part of their contract, they traveled to Brazil to frame and design the research methodology. The consultants from TerraCarbon had a productive visit to Brazil in October/November. They spent considerable time with Imazon to better understand the initiative, how it is linked and coordinated with the Green Municipalities Program (GMP) and the likely short and medium term outcomes. They also conducted interviews with GMP representatives, municipal actors and others. They are preparing their analysis and recommendations for Phase 2 of the consultancy and the optimal evaluation design, which will be submitted to MC in February.

IV. Administration

A. Committees and Communications

1. Communications Committee: The communications meeting has held monthly calls or email updates.
2. Weekly Tracker: The weekly tracker has been regularly distributed.
3. Monitoring and Evaluation Committee: The M&E committee was convened to discuss the evaluation conducted by Terracarbon for Imazon.
4. Management Committee: Management meetings between USAID and Mercy Corps are scheduled to take place on a bi-weekly basis. .
5. Steering Committee: no Steering Committee was scheduled. We anticipate a Steering Committee meeting in January or February.
6. USAID and Skoll Check-ins: Meetings were convened around specific opportunities and were frequent.
7. Mission Measurement: Two final activities were completed by Mission Measurement and then the contract was completed.

B. Staffing

Mercy Corps added two new staff to the assist with the cooperative agreement.

During the quarter, Kevin Hong started as the Monitoring and Evaluation Advisor for Social Innovations. He will be responsible for advising on investment decisions, particularly related to prior evidence and cost effectiveness, and informing the design of M&E systems to measure progress toward impact. This will include performing due diligence, providing technical support on M&E plans, managing and tracking portfolio level investment indicators and coordinating any impact evaluations.

Rachel Huguet is an Assistant Program Officer assigned to the project. She will assist the team with reporting, documentation, compliance, development of proposals and subgrant management. She is also contributing to communications for the Alliance.

Both of these staff members are fully covered under costs saved from terminating the Mission Measurement contract and by reducing the budgeted time for Mercy Corps' Senior Program Officer on the grant.

V. Challenges and Lessons Learned

Process. Mercy Corps' work as part of this Alliance requires considerable effort to screen opportunities and promote them to the partners. Good due diligence has helped to avoid overly risky investments, opportunities that do not meet funding parameters, or those which are not ready for funding now, but the result can be significant time spent on investments that won't be funded. USAID must be comfortable with a process that will allow for investigation but will not lead to funding each time, and the partners must improve their ability to de-prioritize investments that do not appear to meet funding parameters more quickly.

Role of sector specialists. Mercy Corps has worked closely with GP and DIV to identify the innovations that most closely match USAID's criteria and priorities for funding as part of the Alliance program. USAID also relies on internal sector specialists to review opportunities. These specialists are valuable resources from a technical perspective, but often have priorities or perspectives that may differ from Alliance objectives. Mercy Corps has found that meeting the priorities of all of these entities within USAID can be difficult, and advice can be contradictory. Going forward Mercy Corps and USAID need to determine both the optimal time to engage these specialists, who the right individuals are within specialist teams, and how deeply to weight their perspectives.

Partners and spend rate. This quarter has started to show the differing incentives between the partners around the program period and spend rate. Mercy Corps and the Alliance are operating under a five year time period to fund and close out the grants, a time restriction that Skoll is not tied to, and perhaps the partners have not fully recognized to date. Bottlenecks in decision making, such as difficulties to get EF through Skoll's management committee or approved by their board can significantly inhibit Mercy Corps' ability to meet deadlines under our cooperative agreement. Mercy Corps recognizes the seriousness of these delays, and has communicated them to Skoll and USAID. Moreover, Mercy Corps is tightening the time between award funding and new pipeline analysis, with the hope that it will speed up our timeline to award. However, we much recognize that the Alliance is a complex partnership, and respect the decision making autonomy of the partner. This will be an ongoing dialogue, and one that MC will continue to track very closely.

Pipeline. The pool of opportunities on both the USAID side and the Skoll side are limited for Round 3 of funding, resulting in a short list of organizations that meet the IIA criteria and are put forward for consideration. Mercy Corps may need to revisit some of the initial funding opportunities put forward by Skoll for Alliance consideration if existing pipeline options do not appear to align with IIA criteria and/or may need to look outside of the DIV pipeline of deals. This will be an ongoing dialogue between the partners in the next quarter.

VI. Conclusions

In this quarter, a few opportunities dropped out of consideration because they were not well positioned for funding at this time. While this was a correct decision, it means that there is at present only one opportunity moving through the process for funding and two opportunities that may move forward pending internal decisions by Skoll. Mercy Corps is expecting decisions early in the next quarter to guide future investments, but now needs to anticipate a tighter timeline to release funding over the next year.